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C O N F I D E N T I A L ANKARA 006071

SIPDIS

STATE FOR E, EB/IFD AND EUR/SE
TREASURY FOR OASIA - MILLS AND LEICHTER
NSC FOR BRYZA AND MCKIBBEN

E.O. 12958: DECL: 09/26/2013

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SUBJECT: THE 6TH REVIEW AND OUR DISBURSEMENT

REF: ANKARA 5951

(U) Classified by DCM Robert Deutsch. Reasons: 1.5(b,d).

1. (C) IMF Deputy ResRep (protect) told us last night that, given Turkey's strong macroeconomic performance and positive public statements by Fund management, the GOT would have to stumble badly on one or more key issues to prevent the 6th review from moving ahead in a more or less timely fashion. He highlighted fiscal performance as well as direct tax reform as potential "dealbreakers" if the GOT fails to take the right steps, but said Fund staff would not hold up the review over issues such as the GOT's failure to meet targets for reducing the number of redundant workers at state enterprises.

2. (C) Deputy ResRep said the Fund team, which arrived yesterday, was optimistic it could complete its work by the end of its visit on October 10. He asked if we were likely to disburse before then. We responded that we had told GOT to hold off on its disbursement request for a few weeks, which would give us time to assess how the Fund team was proceeding. We said it was critically important that the team keep us informed of progress and, in particular, let us know if any significant problems arose. Deputy ResRep agreed, and said he, the ResRep and the team would be available over the next two weeks to debrief us.

3. (C) Comment: While the Fund has been effective in Turkey, we worry that staff recently has adopted an overly narrow focus on fiscal and banking issues, and is not paying enough attention to the structural reforms that are essential if Turkey is to achieve sustained growth. We also have heard from technocrats, including the Central Bank Governor, that Fund staff was "soft" in the negotiations leading up to the 5th review. At this late date, it would be difficult for the USG to take a harder line than the Fund. That said, being more lenient than the IMF -- i.e., disbursing before Fund staff is satisfied that the Turks have met the 6th review conditions -- would undermine the Fund, rattle the markets (which want us to condition our assistance on economic performance), and set an unhealthy precedent. To ensure this does not happen, we will need to make a preliminary USG determination on Turkey's economic reform performance no later than October 6, so that -- should we see significant problems in reform implementation -- we can advise the Turks that it is premature to request a disbursement.

4. (C) Comment continued: Embassy will stay in close contact with Fund staff over the next two weeks, and will keep Washington apprised of developments on the 6th review and on Turkey's overall economic reform effort. We also will send in septel our thoughts on those issues that might be "dealbreakers" in terms of our first disbursement, as well as those issues on which we might want to lay down some markers now as critical to our decision on the second disbursement.
EDELMAN